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FM AMEMBASSY OUAGADOUGOU
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RUEHZK/ECOWAS COLLECTIVE
RUEHLMC/MILLENNIUM CHALLENGE WASHINGTON DC

UNCLAS SECTION 01 OF 02 OUAGADOUGOU 000596

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TAGS: ETRD EAGR ECON EAID EFIN PREL UV

SUBJECT: BURKINA FASO SEEKS TO WIN BACK TITLE AS AFRICA'S TOP COTTON PRODUCER

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Reftels: A) OUAGADOUGOU 0692; B) OUAGADOUGOU 0488;
C) OUAGADOUGOU 0234

¶1. Summary: During the 2007/2008 growing season, drought and localized flooding, coupled with a softening of world cotton prices, led to widespread dissatisfaction among cotton farmers and the subsequent defection of many producers to cereal production. To encourage cotton production, farmers are being offered increased producer prices and more than \$15 million in seed and fertilizer subsidies, along with financial support from the newly created "Fonds de Lissage."

¶2. The GOBF hopes that this year's cotton crop will almost double to over 600,000 tons. This figure will be augmented by Sofitex's plans to sow 15,000 ha with pest-resistant biotechnology (Bt) cotton from Monsanto, a U.S. company. End Summary.

¶3. Cotton, which contributes 75 percent of foreign exchange earnings, is crucial to Burkina Faso's economy. The 2007/2008 growing season was marked by poor rainfall punctuated by significant flooding in certain regions. These poor growing conditions coupled with depressed world cotton prices led to a 45-percent decline in production (360,000 tons for three cotton companies, Faso Cotton, Socoma, and Sofitex in lieu of the 500,000 tons produced in 2006/2007). Consequently, farmers in some areas of the country decided to forgo cotton cultivation in favor of more lucrative cereal crops.

¶4. Despite last year's difficulties, cotton parastatal Sofitex, the flagship of the Burkinabe economy, is hoping to breathe new life into the nation's troubled cotton industry through a publicity campaign and a series of monetary incentives that it hopes will encourage increased cotton cultivation.

¶5. Government and parastatal optimism appears to ignore the escalating level of debt experienced by all three cotton companies, which has forced them into drastic recapitalization schemes. It is unclear at this point if these schemes will be successful in stabilizing the troubled cotton sector.

Cotton Parastatal, Ag Minister
Paint a Rosy Picture for 2008/2009 Campaign

¶6. As a prelude to the 2008/2009 cotton season, Burkina Faso's three cotton producers Sofitex, Faso Coton, and Socoma, held a Forum on April 17-26 with the National Cotton Producers Union of Burkina

Faso (UNPCB) to discuss the future of the nation's cotton industry. The day before, Sofitex's Director General, Celestin Tiendrebeogo, told the press that, despite the 45-percent decrease in production during the 2007/2008 season, he remained optimistic and believed that production in excess of 600,000 tons was achievable for the upcoming growing season.

¶ 17. During his April 16 meeting with the press, Tiendrebeogo stated that cotton production was still profitable and he was convinced that Burkina Faso could once again become known as "Africa's largest cotton producer." He added that despite last year's unfavorable harvest, Sofitex earned a 10 percent profit margin that allowed it to pay an additional 10 CFA (USD 0.02) to local farmers, bringing the 2007/2008 producer price from 145 CFA (USD 0.34) to 155 CFA (USD 0.37) per kilo for Grade One cotton. For the 2008/2009 season, the producer price is set at 165 CFA (USD 0.39) per kilo for Grade One and 140 CFA (USD 0.33) for Grade Two cotton. Sofitex has also committed to pay an additional 15 CFA (USD 0.035) per kilo if the production goal of 650,000 tons is achieved.

¶ 18. In addition to price increases for the 2008/2009 season, the GOBF has offered other incentives to rekindle farmers' interest in the cotton sector. The GOBF has given approximately \$15.5 million in subsidies for improved seed and fertilizer. As a result, farmers will see a decline in input prices, from approximately \$47 to \$29 for nitrogen-phosphorus-potassium (NPK) fertilizer, and \$31 for urea, a low cost nitrogen fertilizer. The Government has also activated the newly created safety net, the "Fonds de Lissage" which allowed Sofitex to pay producer bonuses. Funded with (USD 23,251,746) from the French Development Agency (AFD), this newly created fund was designed to diminish the risks associated with volatile world cotton prices and help the cotton industry respond to changing world market conditions. It is hoped that this fund will allow the cotton sector to remain unscathed through repeated periods of price decline, while maintaining producer profitability.

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¶ 19. During the May 30 opening of the 2008/2009 agricultural campaign, Laurent Sedego, the recently appointed Minister of Agriculture, Water Resources and Fishery, echoed Tiendrebeogo's optimism that the previous year's production of 310,000 tons would more than double to 621,605 tons during the 2008/2009 season. Sedego reasoned that an increase in world cotton prices, government subsidized farmer inputs, and the "Fonds de Lissage" would give the cotton sector "the shot in the arm it would need to boost 2008/2009 production to record levels."

Despite Optimism the Reality of Debt Remains

¶ 10. Despite displays of optimism, all three companies face serious deficits that could jeopardize additional producer bonuses. In 2007, Sofitex reported losses of approximately \$29.52 million. This debt forced Sofitex into an \$82 million recapitalization, which brought initial capital levels to approximately \$92.4 million. The recapitalization was funded by the GOBF, which took over shares from the French-owned Dagris and refinanced those owned by UNPCB. The GOBF has promised to identify a buyer for the Dagris shares by the end of 2008. A pool of banks has agreed to reschedule Sofitex's \$104.8 million debt for the 2004/2005 and 2005/2006 harvests for a period of five years. For the 2007/2008 cotton season, Sofitex borrowed \$103.8 million from an off-shore pool of banks and \$142.8 million from local banks to buy improved seed and fertilizer. Sofitex is currently in negotiations with local banks to obtain funding for fertilizers to be used during the 2008/2009 season. Despite a forecasted harvest of 600,000 tons for 2008/2009, Sofitex still expects a loss of approximately \$4 million.

Monsanto Bt Cotton Hung by a Thread

¶ 11. In an attempt to further increase production, UNPCB has been working closely with the U.S. company, Monsanto, to finalize plans

that would place 15,000 ha of Bt cotton into commercial production. After five years of field and laboratory testing, Monsanto and UNPCB has signed a licensing agreement that allows Sofitex to grow Bollgard II, pest-resistant, transgenic cotton.

¶12. On March 17 the GOBF issued an administrative order detailing the requirements for the importation and production of transgenic cotton seed varieties. At the last minute, Monsanto announced that it would delay commercialization of genetically modified cotton seeds in Burkina Faso because the order contained conditions that were unfavorable to the development of transgenic technology.

¶13. In an April 30 letter to Salifou Sawadogo, Burkinabe Minister of the Environment, Monsanto wrote that it would be unable to initiate production of transgenic cotton seed for the 2008/2009 season unless four articles in the current administrative order were revised. Monsanto asserted that the proposed one-year authorization in the Order was not realistic and requested a five-year window that would allow the parties to more effectively plan for future growing seasons. Monsanto also stated that 12 years of nutritional and toxicity analyses had provided ample scientific evidence that Bt cotton was safe for both consumers and the environment, and objected to the excessive liability requirements demanded by this agreement.

¶14. Upon hearing the news of a possible halt to the planned commercialization of the Bt cotton in Burkina Faso, Ambassador discussed the issues with both Prime Minister Tertius Zongo and Monsanto reps. The PM then interceded and instructed that the administrative order be changed to meet Monsanto's terms. At the June 16 Council of Ministers meeting, the GOBF authorized Sofitex and the agricultural research institute, Institut de l'Environnement et de Recherches Agricoles (INERA), to sign a license agreement with Monsanto for import, production and marketing of transgenic cotton seed varieties Bollgard II. The forecasted 15,000 ha are now scheduled for planting with Monsanto's Bollgard II.

JACKSON